



STATE OF WASHINGTON

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April 20, 2004

TO: Agency Directors
Budget Officers

FROM: Marty Brown *MB*
Director

SUBJECT: 2005-07 Operating Budget Instructions, Part 2

First, thank you for all your efforts during the recently completed legislative session. The fact that the 2004 supplemental budget reflected relatively modest dollar changes and still advanced Governor Locke's initiatives in education and other critical areas is proof that we can continue to make meaningful progress despite our funding difficulties.

With the release of the OFM Budget Instructions for agency 2005-07 budget requests, we are ready to fully engage in the next phase of budget development. I am particularly excited that this biennial budget can be built on both the successes and lessons learned from the Priorities of Government (POG) process we began in 2002. Although we were confronted with many difficult choices in the current budget, POG helped provide a common-sense framework for shaping our decisions and explaining them to the public.

Early assessments of the fiscal environment for the next biennium indicate some improvement over what we encountered in 2003-05. But we face many uncertainties as well, and they must be confronted realistically. The economic picture continues to brighten, but recovery is slow. Health care costs, which directly influence at least one-third of General Fund-State (GFS) expenditures, continue to rise by at least ten percent. Other expenses, such as the cost of employee pensions, continue to increase. Citizen pressure is building to provide higher education enrollments, smaller class sizes in schools, reduced health care premiums for low-income families, and other expansions of state support. Meanwhile, preliminary (February) estimates of the GFS outlook for 2005-07 identify a potential gap of \$700 million to \$1 billion between resources and expenditure demands.

The magnitude and difficulty of these issues reinforces our commitment to the Priorities of Government process and to its integration with agency budget request development. The POG Result Teams began meeting this month to evaluate statewide strategies and result indicators. The task before us all is to translate their assessments into activity-level purchase plans next fall. In contrast to last biennium, this time frame will give agencies the benefit of Result Team evaluations in the spring, before budget requests are finalized.

We also have improved our systems to enable agencies and OFM analysts to view the budget numbers from several different angles. The merger of traditional incremental data and activity detail allows us to consider expenditure priorities from both an agency and statewide perspective. This unprecedented information is critical to our understanding of how agencies' activities contribute to high level results.

In a slight reversal of the typical good news/bad news scenario, I want to communicate both. The bad news is that the costs of existing state services continue to increase, while the pressure to do more with less remains a strong public sentiment. The good news is that we confronted the previous fiscal crisis by creating a more results-oriented decision process and set of support tools that will serve us even better in the upcoming budget.

I look forward to applying our energies to this new budget challenge, and thank you in advance for your help.

Resources:

If you have questions about these instructions, please contact your OFM budget analyst (assignment list at <http://www.ofm.wa.gov/assign/assign4.htm>) or Lynne McGuire at (360) 902-0581 or lynne.mcguire@ofm.wa.gov.

2005-07 Budget Instructions Part 1 (strategic planning and performance measures) and Part 2 (agency submittal requirements) can be found at <http://www.ofm.wa.gov/budget/instructions/operating.htm>.

Information on the Priorities of Government (POG) process can be found on OFM's website at <http://www.ofm.wa.gov/budget/pog/overview.htm>.